

**CAPITAL GROUP
SELENA FM S.A.**

**LONG-FORM AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

I. GENERAL NOTES

1. Background

The holding company of the Selena FM S.A. Group (hereinafter 'the Group' or 'the Capital Group') is Selena FM S.A. ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Notarial Deed dated 28 December 1993. The Company's registered office is located in Wrocław at Strzegomska 2-4 Street.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000292032 on 10 September 2002.

The Company was issued with tax identification number (NIP) 884-00-30-013 on 20 January 1994 and statistical number (REGON) 890226440 on 13 February 2007.

The principal activities of the holding company are as follows:

- Advisory services in strategic management;
- Advisory services in finance management;
- Advisory services in sales strategy;
- Accounting services;
- Wholesale of building materials and sanitary equipment.

The scope of activities of the Group's subsidiaries, jointly controlled entities and associates are production, distribution and sales of building materials used for doors, windows and general building.

As at 31 December 2012, the Company's issued share capital amounted to 1,142 thousand zlotys. Equity as at that date amounted to 375,861 thousand zlotys.

In accordance with Company's share register as at 31 December 2012, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Krzysztof Domarecki	9,538,000	13,538,000	476,900	41.77%
Syrius Investments S.a.r.l.	8,050,000	8,050,000	402,500	35.25%
Inni akcjonariusze	5,246,000	5,246,000	262,300	22.98%
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Total	22,834,000	26,834,000	1,141,700	100.00%
	=====	=====	=====	=====

As a result of execution of the management incentive programme, 110,000 new series D ordinary shares were issued. The shares were admitted to trading on 16 March 2012. A nominal value of a share is 0.05 zlotys. The shares were acquired in exchange for the warrants awarded under the incentive scheme.

As at 21 March 2013, the holding company's Management Board was composed of:

Jarosław Michniuk	- President
Kazimierz Przełomski	- Vice President
Beata Pawłowska	- Vice President

On 4 June 2012 the holding company's Management Board appointed Beata Pawłowska for the position of Vice President.

2. Group Structure

As at 31 December 2012, the Selena FM S.A. Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Orion Polyurethanes Sp. z o.o.	full consolidation	No audit obligation	No audit obligation	31.12.2012
Orion Polyurethanes sp. z o.o. SKA.	full consolidation	During the audit	Ernst & Young Audit Sp. z o.o.	31.12.2012
Libra Sp. z o.o.	full consolidation	During the audit	Ernst & Young Audit Sp. z o.o.	31.12.2012
Carina Sealants sp. z o.o. SKA	full consolidation	During the audit	Ernst & Young Audit Sp. z o.o.	31.12.2012
Carina Sealants sp. z o.o.	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena S.A.	full consolidation	During the audit	Ernst & Young Audit Sp. z o.o.	31.12.2012
Tytan EOS Sp. z o.o.	full consolidation	During the audit	Ernst & Young Audit Sp. z o.o.	31.12.2012
PMI „Izolacja-Matizol” S.A.	full consolidation	During the audit	Ernst & Young Audit Sp. z o.o.	31.12.2012
Research Centre of Construction Technology sp. z o.o.	full consolidation	During the audit	Ernst & Young Audit Sp. z o.o.	31.12.2012
Virgo Project sp. z o.o.	full consolidation	During the audit	Ernst & Young Audit Sp. z o.o.	31.12.2012
Selena Romania SRL	full consolidation	During the audit	Ernst & Young	31.12.2012

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Selena Bohemia s.r.o.	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena Hungária Kft.	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena Slovakia s.r.o.	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena USA, Inc.	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena USA Real Estate Corp.	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena Deutschland GmbH	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena CA L.L.P. (Kazakhstan)	full consolidation	During the audit	E.S.T. Audit	31.12.2012
Selena Ukraine Ltd.	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena Italia srl	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena Sulamericana Ltda	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena Bulgaria Ltd.	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena Vostok Moscow	full consolidation	During the audit	OOO Finaudit	31.12.2012
Selena Sever Moscow	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena Shanghai Trading Co., Ltd.	full consolidation	During the audit	Shanghai Jinrun CPA Co., Ltd	31.12.2012
Foshan Chinuri Selena Chemicals Co. Ltd	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena Nantong Building Materials Co., Ltd.	full consolidation	During the audit	Ernst & Young	31.12.2012
POLYFOAM Yalitim Sanayive Tic Ltd.	full consolidation	During the audit	Ernst & Young	31.12.2012
Selena Iberia slú	full consolidation	During the audit	Ernst & Young	31.12.2012
OOO Kvadro (Russia)	full consolidation	No audit obligation	No audit obligation	31.12.2012
Selena Malzemeleri Yapi Sanayi Tic. Ltd.	full consolidation	During the audit	Ernst & Young	31.12.2012
FinSelena Oy (Finland)	full consolidation	No audit obligation	No audit obligation	31.12.2012
Euro MGA Product srl	full consolidation	During the audit	Ernst & Young	31.12.2012

As at 31 December 2012 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

Name and registered office	Type of activity
Hamil - Selena Co Ltd. with head office in Kimhae (Korea)	production of polyurethane foams and aerosol products

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 1.5 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the consolidated financial statements of the Group for the year ended 31 December 2012.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 29 June 2012 to audit the Group's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 30 July 2012 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2012.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 21 March 2013, stating the following:

'To the General Shareholders' Meeting

1. We have audited the attached consolidated financial statements of Selena FM S.A. Group ('the Group'), for which the holding company is Selena FM S.A. ('the Company') located in Wrocław at Strzegomska 2-4 Street, for the year ended 31 December 2012 containing, the consolidated income statement, the consolidated statement of comprehensive income for the period from 1 January 2012 to 31 December 2012, the consolidated statement on financial position as at 31 December 2012, the consolidated statement of cash flow, the consolidated statement of changes in equity for

the period from 1 January 2012 to 31 December 2012 and the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').

2. The truth and fairness¹ of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
 - chapter 7 of the Accounting Act,
 - national auditing standards issued by the National Council of Statutory Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.
4. In our opinion, the attached consolidated financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position³ as at 31 December 2012;
 - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
 - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the

¹ Translation of the following expression in Polish: 'rzetelność i jasność'

² Translation of the following expression in Polish: 'rzetelne i jasne'

³ Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

6. As at the date of this opinion, the consolidated financial statements for the year ended 31 December 2012 have not been submitted for publication in Monitor Polski B, as required by the Accounting Act.'

We conducted the audit of the consolidated financial statements during the period from 29 October 2012 to 21 March 2013. We were present at the holding company's head office from 29 October 2012 to 31 October 2012, from 25 February 2013 to 15 March 2013.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness⁴ of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 21 March 2013, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete,
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements,

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2011 were audited by Ewa Kowalczyk, key certified auditor no. 9263, acting on behalf of Ernst & Young Audit Sp. z o.o., Rondo ONZ 1, Warsaw, reg. no. 130. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2011. The consolidated financial statements for the year ended 31 December 2011 were approved by the General Shareholders' Meeting on 19 June 2012.

The consolidated financial statements of the Group for the financial year ended 31 December 2011, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 27 June 2012 with the National Court Register.

⁴ Translation of the following expression in Polish: "rzetelność i jasność"

As at 21 March 2013, neither the consolidated balance sheet as at 31 December 2011, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement for the year ended 31 December 2011, nor the auditors' opinion and a copy of the resolution approving the financial statements have been submitted for publishing in Monitor Polski B.

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2010 – 2012. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2012 and 31 December 2011.

	2012	2011	2010
Total assets	693,810	737,143	603,887
Shareholders' equity	375,861	379,002	359,177
Net profit/ loss	4,338	17,985	24,660
Return on assets (%)	0.6%	2.4%	4.1%
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$			
Return on equity (%)	1.1%	5.0%	7.3%
$\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	0.4%	1.8%	2.8%
$\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	1.8	1.4	2.1
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	0.2	0.1	0.2
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			

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	2012	2011	2010
Debtors days	61 days	66 days	57 days
Trade debtors x 365			
Sales of finished goods, goods for resale and raw materials			
Creditors days	34 days	38 days	36 days
Trade creditors x 365			
Costs of finished goods, goods for resale and raw materials sold			
Inventory days	41 days	48 days	52 days
Inventory x 365			
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	69.1%	59.0%	73.1%
(Equity + long-term provisions and liabilities) x 100			
Total liabilities, provisions and equity			
Debt ratio (%)	45.8	48.6%	40.5%
(Total liabilities and provisions) x 100			
Total assets			
Rate of inflation:			
Yearly average	3.70%	4.30%	2.60%
December to December	2.40%	4.60%	3.10%

4.2 Comments

The following trends may be observed based on the above financial ratios:

- Return on assets ratio decreased from 2.4% in 2011 to 0.6% in 2012, in 2010 the ratio amounted to 4.1%,
- Return on equity ratio decreased from 5.0% in 2011 to 1.1% in 2012, in 2010 the ratio amounted to 7.3%,
- Profit margin decreased from 1.8% in 2011 to 0.4% in 2012, in 2010 the ratio amounted to 2.8%,
- Liquidity I increased from 1.4 in 2011 to 1.8 in 2012, in 2010 the ratio amounted to 2.1,

- Liquidity III increased from 0.1 in 2011 to 0.2 in 2012, in 2010 the ratio amounted to 0.2,
- Debtor days decreased from 66 days in 2011 to 61 days in 2012, in 2010 the ratio amounted to 57 days,
- Creditor days decreased from 38 days in 2011 to 34 days in 2012, in 2010 the ratio amounted to 36 days,
- Inventory days decreased from 48 days in 2011 to 41 days in 2012, in 2010 the ratio amounted to 52 days,
- Stability of financing ratio increased from 59.0% in 2011 to 69.1% in 2012, in 2010 the ratio amounted to 73.1%,
- Debt ratio decreased from 48.6% in 2011 to 45.8% in 2012, in 2010 the ratio amounted to 40.5%.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2012 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2.5 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2012, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2012 and that there are no circumstances that would indicate a threat to its continued activity

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 4 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2012.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2012.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in note 3 of the additional notes and explanations to the consolidated financial statements.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 469 thousand zlotys as at 31 December 2012. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 27 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2012 and include the financial data for the period from 1 January 2012 to 31 December 2012.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities.

6. Items which have an impact on the group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2012.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2012 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and

conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Ewa Kowalczuk
certified auditor
no. 9263

Wrocław, 21 March 2013